

2011 Council Study Issue

FIN 11-03 Options for a Hybrid Pension Model**Lead Department** Finance**History** 1 year ago None 2 years ago None**1. What are the key elements of the issue? What precipitated it?**

The cost of the City's pension plans have increased significantly over the past 10 years, and costs are expected to continue to rise significantly into the foreseeable future. A greater and greater portion of the City's revenues are required to cover pension expenses, which comes at the expense of providing services. As such, over the past 18 months, alternatives to the City's current defined benefit pension plans have been studied and estimated cost savings have been quantified. To date, the focus on alternatives has considered lower-tiered defined benefit plans and increases in employee contributions. A hybrid defined benefit/defined contribution plan has not been studied and brought forward for Council consideration; however, this is an alternative that could save the City significant money if implemented and help create a more sustainable retirement plan for the City with more predictable costs. It also requires significant study to understand the administrative and operational elements, as well as the financial implications of the transition. A hybrid defined benefit/defined contribution plan would combine a low-tier defined benefit pension formula with a 401(k)-style defined contribution plan.

2. How does this relate to the General Plan or existing City Policy?

Current policy in the fiscal sub-element of the General Plan calls for full annual funding of the City's pension obligation. With costs increasing dramatically, a larger portion of the City's available resources are going to funding this obligation, which is not sustainable over the long-term.

3. Origin of issue**Council Member(s)** Moylan, Whittum**4. Staff effort required to conduct study** Major**5. Multiple Year Project?** Yes **Planned Completion Year** 2012**6. Expected participation involved in the study issue process?****Does Council need to approve a work plan?** No**Does this issue require review by a Board/Commission?** No**If so, which?****Is a Council Study Session anticipated?** Yes**7. Briefly explain cost of study, including consultant hours, impacted budget program,**

required budget modifications, etc. and amounts if known.

This study issue represents another alternative to consider in the City's ongoing evaluation of its pension plans. While there is no additional cost to looking into a hybrid defined benefit/defined contribution plan in conjunction with the ongoing evaluation of other alternatives, this alternative is considerably more complex in its implementation and will require a significant amount of staff resources to fully study.

8. Briefly explain potential fiscal impact of implementing study results (consider capital and operating costs, as well as potential revenue).

A hybrid defined benefit/defined contribution pension model would have significant long-term operating savings if implemented. Initial savings would not be substantial, as this model would only apply to employees hired after the implementation date. However, over the long-term, this model would greatly reduce pension costs for the City and would result in less volatility in the City's annual funding requirements.

9. Staff Recommendation

Staff Recommendation Defer

If 'For Study' or 'Against Study', explain

There are currently no viable options outside of CalPERS to provide the City with the defined benefits portion of a hybrid model. Currently CalPERS does offer a lower-tiered benefit formula (e.g. Miscellaneous 1.5% @65) that would work well in combination with a defined contribution component; however, entities on this low-tier formula are required to supplement it with Social Security, which is not an ideal option for the City. There are a number of cities currently challenging this provision, which may lead to change in the future. Staff recommends deferring this study until the time at which a decision has been made as to whether cities on a low-tiered formula are required to supplement this plan with Social Security.

Reviewed by

Approved by


Department Director

11/12/10
Date


City Manager

11/13/10
Date